The Real Estate ANALYST

OCTOBER 31
1960

Volume XXIX

Number 47

As I See

GOLD AND INFLATION

WHEN a strong, vigorous man has a slight heart attack he may adopt a remedial course of treatment which will add many years to his life expectancy. Had he not had the minor attack, his former mode of living might within a reasonably short time have brought on an initial attack which would have proved fatal. From that standpoint, the mild attack was a blessing in disguise.

The recent run on gold is a warning which the United States would do well to heed. In substance, it is saying that inflationary practices which could be followed almost with impunity when gold reserves were strong and increasing cannot be followed when reserves are weak and declining.

In the early postwar period the producing capacity of much of the world was quite low. Most countries needed capital equipment of all types as well as consumer goods. America was the only country that could supply this material in great quantity, and as a result a large part of the world's gold supply came to the United States in exchange for various types of exports. As almost all European and many other countries were buying from us far more than they could sell to us, there was a constant dollar shortage, which resulted in our plans to extend economic aid to many of these countries.

The conditions in the early postwar period have now changed completely. West Germany and Japan have become very strong industrial countries with efficient producing equipment, good techniques, and low unit costs of production. England and France have stepped up their industrial activities in a similar fashion, but to a lesser extent.

During this entire period, in addition to its exports, the United States has maintained armed forces in many parts of the world. The money required to maintain these foreign outposts has been spent largely in these countries and has increased their supply of dollars. This has continued until at the present time dollars owned by foreigners exceed the total amount of gold in the United States, and each year the dollar volume of foreign claims against our gold supply increases while the remaining gold in our custody shrinks.

Last week our gold supply decreased by $208 million. At this rate it would not take long to lose several billion dollars, and a loss of this size would precipitate a crisis. Although many voters may be fooled by promises of increased Government spending and lower interest rates, the hard-headed international bankers are not. In their attempt to cash dollars for gold, foreign holders of these dollars are voicing their uncertainty as to whether the United States can continue to pay off dollar claims at $35 an ounce. Over the longer period, the rest of the world is saying it would rather have the gold to spend elsewhere than the dollars to buy merchandise and services in the United States.

Why has this come about?

It seems to me that the principal cause has been the inflationary policies we have followed in the United States. These policies have resulted in wage increases greater than the increase in productivity, with a resulting increase in price. Continued year after year, it has gotten to the point where many types of durable equipment and consumer goods now cost far more on the American market than they do on other markets of the world. There is no longer a demand throughout the world for American dollars with which to buy American goods. The world still wants our dollars, but would prefer to turn them into their gold equivalent so that the amount can be spent in other countries where prices are lower than they are here.

This being the case, we should re-examine many of our domestic and foreign policies. Among these would be the following:

1. Our agricultural policy. For many years we have supported the price of farm products above the world market price. As a result surpluses have accumulated, until they are totally unmanageable. It is far cheaper for world buyers to purchase agricultural products in other countries than it is to purchase them from us, in spite of our tremendous oversupplies.

We have unique opportunities in the agricultural field. We have the most modern and the greatest investment in efficient farms in the world. Ninety-seven percent of all farms in the United States have electricity, which can be used in many labor-saving devices. Most of our best agricultural land is flat and lends itself to machine operation. Our agricultural colleges have carried on tremendous research programs yielding better seeds, better fertilizers, better weedicides, and better insecticides than are available in other countries. Our farmers are the best educated in the world. This has not resulted in an expansion of our markets but in a constant effort to reduce acreage in order to slow down the accumulation of unusable surpluses. We should be exporting very large quantities of agricultural products which would, in turn, give us large quantities of foreign currency which we could then offset against the claims of foreign countries for gold. Many of the agricultural surpluses we

have exported have been subsidized and, accordingly, have not helped as much as they should in our balance of trade.

There has never been a time when this wasn't apparent. As early as 1933 the Real Estate Analyst called attention to the fact that the policies we were then starting would result in a loss of our foreign markets. It should have been apparent during this entire period that goods cannot be sold in foreign trade above their world price.

2. Our labor policies. Labor policies in the United States have contributed to our dilemma. I have always been a strong supporter of our Sherman Anti-trust Act, as I believe that all combinations in restraint of trade are props for the high-cost producer and obstacles to the development of the efficiency which is secured when the efficient low-cost producer drives the inefficient high-cost producer out of business. Believing as I do, I naturally object to a labor monopoly in many cases practicing a nationwide combination in restraint of trade. The work rules which allow featherbedding, for instance, increase the cost of transportation of passengers and freight without giving anything in return, and are one of the contributing causes of our decline in world markets.

Any labor practice which tends to restrict increases of output per hour and which attempts to increase wage payments faster than efficiency can be increased, raises prices, and as prices go up the purchasing power of the dollar goes down. The effect of this can be seen quite easily in the export and import field for manufactured goods. If we use 1953 as a base, we find that our exports of finished manufactured articles have declined by 4 percent, not a decline which should worry us a great deal. However, when we find that our imports of finished manufactured articles during the same period have increased by 136 percent, it is time to take notice. If we make the same comparison on total manufactured foodstuffs, semimanufactured goods, and finished manufactured goods, we find that our exports from 1953 through last year increased by 7 percent, but our imports increased by 68 percent.

It is rather ridiculous that foreign-made barbed wire (an American invention) has been able to supplant much of domestic manufacture, after paying the cost of production, the cost of transportation, and a tariff. We are an ingenious people, and we started a generation ago with vast accumulations of capital acquired by the greatest efficiency and thrift of our forebears. It was possible to follow many foolish policies for a long period of years, but our inheritance has been shrinking and we may be getting to the point where the bank will no longer honor our checks.

I wish it were possible for persons seeking political office to tell the whole truth to the people and still be elected. The solutions of most of our problems are relatively simple, but unpalatable. Elections apparently can be won by the writing of platforms and the making of promises which have little relationship to the principles which govern economic growth. I think there are many of us

in the United States who believe that the economics of Barry Goldwater would do more to cure fundamental weaknesses in our economy than those of any of the other original candidates. Through his entire voting record in the Senate he has shown a disdain for empty oratory and has consistently voted on the basis of principle. He could never be likened to the politician who made an enthusiastic speech, ending with the words, "Now this is what I believe, and if you don't like it - I'll change it."

I intend to vote for Mr. Nixon in the coming election, as Senator Goldwater does, primarily on the issue of the role of the Federal Government in our economy. I believe that Jack Kennedy, if elected, is going to find that many things in the Democratic platform and many of his campaign promises cannot be carried out. To ease money and drop interest rates, as he has promised to do, together with the many other increases in Government expenditures required by his program, would unbalance the budget, and would in my opinion bring a run on our gold supply of such proportions that there would be no possibility of avoiding revaluation of the dollar, with the further inflation which would inevitably follow.

Roy Wenzlick

ROY WENZLICK